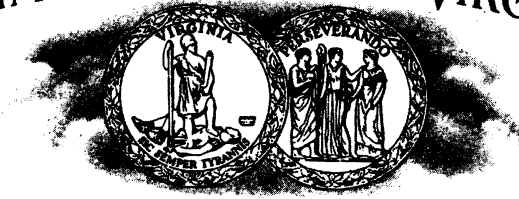


EXAMINATION REPORT
of
OPTIMA HEALTH GROUP, INC.
Virginia Beach, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Optima Health Group, Inc. as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 3rd day of July, 2008

Alfred W. Gross
Commissioner of Insurance

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Richmond, Virginia
April 10, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

OPTIMA HEALTH GROUP, INC.

Virginia Beach, Virginia,

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on September 9, 1988. The Corporation operates as a capitated and fee-for-service individual practice association HMO. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance ("Bureau") as of December 31, 2004. This examination covers the period from the January 1, 2005 through December 31, 2007.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on August 26, 1988. Effective September 1, 1988, the Corporation entered into an Agreement of Sale with the Receiver of Maxicare Virginia, L.P. The Agreement sold, conveyed, transferred, and delivered to the Corporation all rights, title, and interest in and to the assets of Maxicare, unless specifically excluded in the Agreement. The Corporation also assumed the future payments and performances of Maxicare's specified liabilities as of the effective date of the Agreement.

Effective April 19, 2004 the Corporation changed its name from Sentara Health Plans, Inc. to Optima Health Group, Inc.

CAPITAL AND SURPLUS

At December 31, 2007, the Corporation's capital and surplus was \$5,630,432. According to the amended and restated Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with no par value and a stated value of \$2 per share. As of December 31, 2007, 5,000 shares were outstanding, with gross paid in and contributed surplus of \$25,390,000 and unassigned funds of (\$19,769,568).

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30, or September 30. Because the sum of the Corporation's uncovered expenses for three-month period ending December 31, 2007 was \$0, the Corporation's minimum net worth requirement at December 31, 2007 was \$600,000.

MANAGEMENT AND CONTROL

As of December 31, 2007, the amended and restated bylaws of the Corporation provide that the affairs, property and funds of the Corporation shall be managed by the Board of Directors (the "Board"). The number of Directors shall not be less than three nor more than sixteen. Each Director may be re-elected upon expiration of their term. The bylaws state that one third of the Directors shall be elected by the shareholders at the annual meeting of the Corporation each year. Each group of electors shall be elected in the succeeding years over a three-year period.

The bylaws also provide for the creation of an Advisory Panel to advise the Board and officers of the Corporation on matters affecting members. The Advisory Panel shall consist of not less than five members with the number of members to be set by the Board. The President shall appoint the members to serve on the Advisory Panel. Members shall serve on the panel until they retire or are removed by the President. At least two of the members selected by the President shall advise the Board with respect to grievances filed by members.

The officers of the Corporation shall consist of a Chairman, a President, a Secretary, a Treasurer and such other officers with such duties as may be authorized and determined by the Board. Any person may hold more than one office, except for the offices of the President and the Secretary. The Chairman shall be selected from among the Board members. Each officer shall serve a one year term or until their successors are

duly elected and qualified. The officers of the Corporation shall be elected by the shareholders at its annual meeting.

At December 31, 2007, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Darlene S. Anderson	Senior Vice President, Operations Sentara Health Plans, Inc. Virginia Beach, Virginia
David L. Bernd	Chief Executive Officer Sentara Healthcare Norfolk, Virginia
Robert A. Broermann	System Vice President Sentara Healthcare Norfolk, Virginia
Michael M. Dudley	System Vice President Sentara Healthcare Virginia Beach, Virginia
Vicky G. Gray	Vice President, System Development Sentara Healthcare Norfolk, Virginia
James E. Haden	President and Chief Executive Officer Martha Jefferson Health Services Charlottesville, Virginia
George W. Hubbard	Surgeon Norfolk, Virginia
John F. Kalafsky, M.D.	Physician Norfolk, VA
Howard P. Kern	President and Chief Operating Officer Sentara Healthcare Norfolk, Virginia

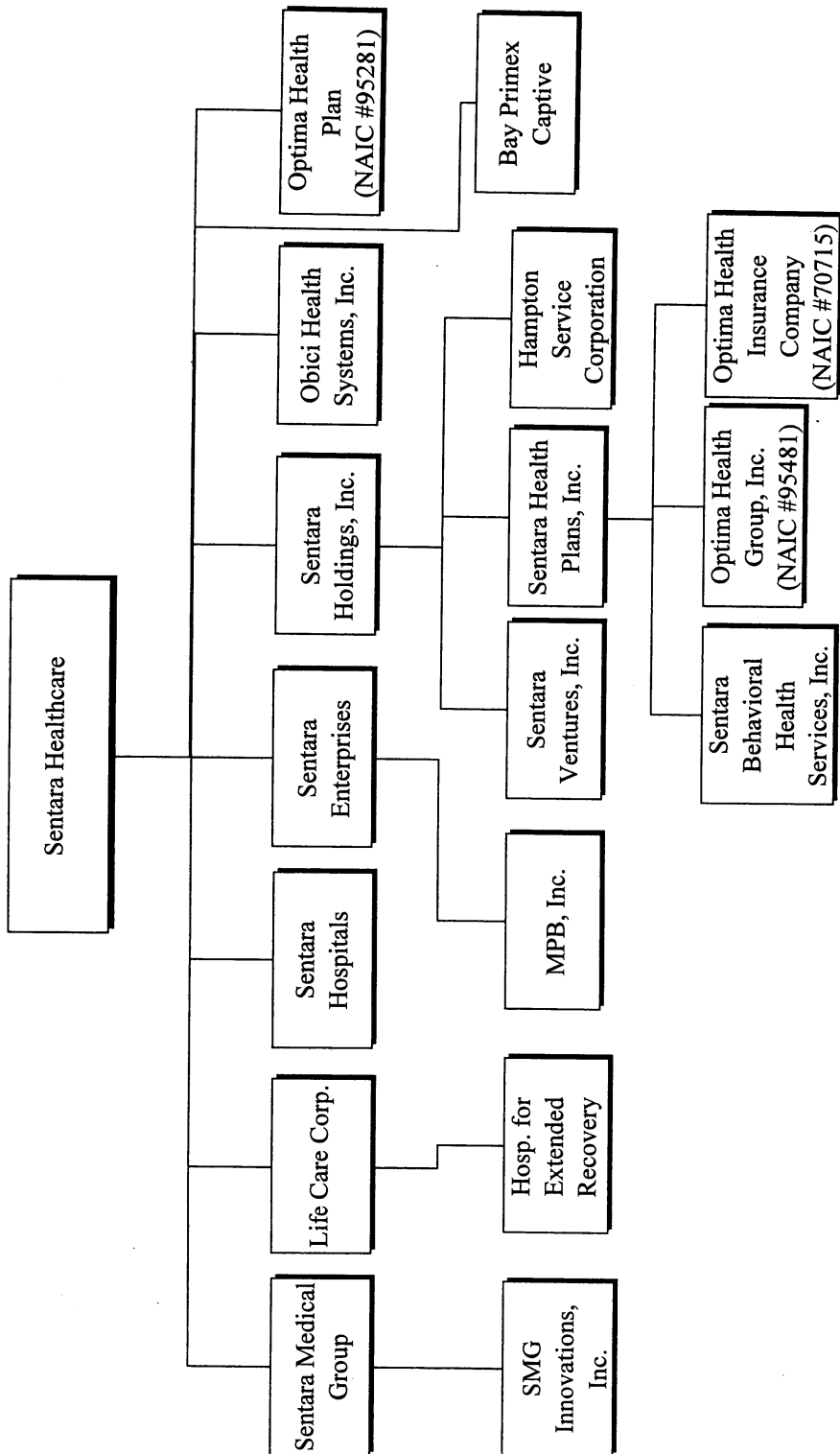
Charles F. Lovell, Jr. M.D.	Physician Norfolk, Virginia
E. George Middleton, Jr.	Chairman of the Board E.G. Middleton, Inc. Norfolk, Virginia
David M. Pariser, M.D.	Physician Norfolk, Virginia
Meredith B. Rose, M.D.	Physician Virginia Beach, Virginia
Theodore M. Wille, Jr.	Retired Virginia Beach, Virginia
Gary R. Yates, M.D.	Chief Medical Officer Sentara Healthcare Norfolk, Virginia

Officers

David L. Bernd	Chairman of the Board
Michael M. Dudley	President
Howard P. Kern	Secretary and Treasurer
Gail P. Heagen	Assistant Secretary
Robert A. Broermann	Assistant Treasurer

AFFILIATED COMPANIES

As of December 31, 2007, the amended and restated Articles of Incorporation stated that the Corporation has the authority to issue 5,000 shares of common stock. As of December 31, 2007, the 5,000 issued shares are owned by SHP, which is a wholly owned subsidiary of Sentara Holdings, Inc. ("SHI") which is a wholly owned subsidiary of Sentara Healthcare. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2007:



TRANSACTIONS WITH AFFILIATES

Administrative Services and Marketing Agreement

Effective April 1, 2005, the Corporation entered into an Administrative Services and Marketing Agreement with Sentara Health Plans, Inc. ("SHP"). According to the provisions of the agreement, SHP shall perform, or arrange for the performance of the administrative services necessary to fulfill the Corporation's obligations under its Evidences of Coverage. The services include the following:

- Underwriting Services
- Enrollment Services
- Claims Administration Services
- Information Systems Services
- Premium Billing and Collecting
- Inquiries and Requests
- Administrative Material
- Investment Services
- Medical Care Management
- Provider Relations
- Marketing Services

As compensation for these services, the Corporation shall pay SHP a monthly administrative fee. The administrative fee shall equal the actual costs incurred by SHP in providing the services and shall include the direct costs as well as the allocable portion of costs incurred by SHP in connection with providing such services. SHP will develop and periodically revise a cost allocation model to allocate appropriate administrative costs among the SHP companies. During 2007, the Corporation incurred \$34,341 in administrative fees related to this agreement.

HMO Excess Risk Policy

Effective October 1, 2001, the Corporation entered into a HMO Excess Risk Policy with Optima Health Insurance Company ("OHIC"). According to the terms of the policy, OHIC will reimburse the Corporation 100% of the eligible services incurred in excess of the \$500,000 deductible per member per catastrophic event up to a maximum of \$1,000,000 per member per year. Eligible services are defined as those acute care hospital services, approved by the Corporation, rendered to a member who is registered as a bed patient at a licensed acute care hospital. Covered services also include hospital services for members approved for transplants, except transplants performed at Sentara Norfolk General Hospital which are specifically excluded under the policy. The

Corporation pays OHIC a per member per month rate set forth in the policy to cover all excess risk claims.

Tax Allocation Agreement

Effective January 1, 2003, the Corporation entered into a Tax Allocation Agreement with and among SHI and its subsidiaries. The agreement establishes methods for allocating consolidated Federal income tax liability among the affiliates and for sharing the benefits that may be derived from filing a consolidated Federal income tax return. Under the terms of the agreement, the affiliates shall pay to SHI the amount of its tax cost or will receive from SHI the amount of its tax benefit to the extent that it reduces the group taxable income.

Provider Agreements

The Corporation contracts with several subsidiaries of Sentara Healthcare ("SHC") to provide hospital, mental health physician services and other medical services to members.

Dividend to Stockholder

On November 1, 2004, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of \$9,000,000 to SHP. The Bureau approved the Corporation's request on December 15, 2004 and the dividend was paid on February 9, 2005.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Corporation's service area, as reported in its 2007 Annual Statement, includes the cities of Norfolk, Virginia Beach, Portsmouth, Hampton, Suffolk, Newport News, Poquoson, Gloucester, Williamsburg, and Chesapeake and the counties of James City, Isle of Wight, York, Charles City, King William, Mathews, New Kent and Surry.

Medical services are provided by physicians in independent practice within the Corporation's service area. Each member chooses a primary care physician ("PCP") from a list of the Corporation's primary providers. The PCP is responsible for coordinating all of the member's health care needs. Except in emergencies, a member must obtain services only from, or prearranged by, their PCP. Specialist physicians are only available with a referral from a PCP. All hospital admissions must be arranged by an attending physician and approved in advance by the Corporation.

On February 6, 2007, the State Corporation Commission issued a consent order in which the Corporation agreed to not issue any new business in Virginia until further order of the Commission. The Corporation also agreed to continue to comply with the Bureau's financial and reporting requirements.

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serves the Corporation and refrains from doing anything which is adverse or prejudicial to the Corporation's interest. To ensure compliance with the policy, the Corporation has established procedures which require directors, officers and members of a committee with Board delegated powers to sign a conflict of interest disclosure form annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2007, the Corporation was listed as a named insured on a commercial crime policy with a \$4,000,000 limit of liability, subject to a \$100,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a professional/commercial general liability policy, a commercial property insurance policy, a business automobile liability policy, a directors and officers liability policy and a workers compensation and employers liability policy.

PROVIDER AGREEMENTS

Medical Services

The Corporation has entered into agreements with numerous PCPs and specialist physicians to provide covered services to members. PCPs and specialist physicians are compensated on a fee for service basis at the lesser of billed charges or established fee schedules less any applicable copayments.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Corporation compensates participating hospitals on either a discounted fee for service, a fixed per-diem, or a per case basis. The amounts paid to each hospital are based on terms disclosed in each individual agreement.

Other Health Care Services

The Corporation provides other health care services to members through various ancillary agreements. These services include ambulance services, skilled nursing care, home health care, physical, occupational and speech therapy, laboratory and pharmaceutical services, vision, and dental care. Compensation is based on arrangements set forth in each contract.

CONTRACT FORMS

The group contract agreement generally covers the following services provided by PCPs, participating specialists, and other professional providers:

1. Professional Services
2. Allergy Care
3. Hospital Services
4. Maternity Services
5. Family Planning and Infertility Services
6. Skilled Nursing Facility Care
7. Home Health Care Skilled Services
8. Orthopedic and Prosthetic Appliances
9. Ambulance Service
10. Emergency Services
11. Mental Health Services
12. Durable Medical Equipment

Exclusions generally include services or supplies that were not authorized or arranged by the member's PCP or the Corporation; any service, supply or treatment not specifically covered in the Evidence of Coverage; personal comfort items; private duty nursing; cosmetic surgery; costs of services covered by a group insurance mechanism or governmental program; eye surgery to correct refraction errors; school physicals; physical examinations for employment or insurance; and experimental medical, surgical or mental health care procedures or services. Other exclusions include treatment or drugs for smoking cessation; services and drugs in connection with obesity; routine footcare and foot orthotics; immunizations related to foreign travel or employment; coverage for a newborn or other child of a dependent child; hearing aids; eyeglasses or contact lenses or the fitting thereof and prescription drugs unless covered under a rider.

The above are abbreviated descriptions of the coverages and exclusions and each individual contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2007. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital and Surplus</u>
1998	\$14,689,415	\$7,561,811	\$7,127,604
1999	11,746,258	1,788,145	9,958,113
2000	15,232,915	7,443,823	7,789,092
2001	12,077,143	4,494,250	7,582,893
2002	14,402,954	5,646,643	8,756,311
2003	20,733,387	5,520,201	15,213,186
2004	15,564,207	1,756,024	13,808,183
2005	5,370,396	75,964	5,294,432
2006	5,499,840	40,938	5,458,902
2007	5,641,539	11,107	5,630,432

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
1998	\$11,676,326		\$6,963,586	\$1,044,006	\$3,668,734
1999	8,812,230		5,628,643	719,115	2,464,472
2000	25,595,313		28,871,568	1,817,532	(5,093,787)
2001*	34,814,656		32,923,939	2,209,015	(318,298)
2002	39,898,454	441,927	36,347,305	2,976,088	1,016,988
2003	46,927,781	350,787	37,877,274	3,178,810	6,222,484
2004	35,761,226	296,444	30,630,369	2,940,677	2,486,624
2005	(107,223)	143,822	(628,434)	72,343	592,690
2006	10,703	187,436	(16,864)	35,182	179,821
2007	5,934	248,944	18,411	36,414	200,053

*Prior to 2001, Net investment gains or losses were included in Total Revenue.

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
1998	3,877
1999	4,228
2000	16,833
2001	17,018
2002	16,849
2003	17,137
2004	624
2005	5
2006	2
2007	2

EXCESS LOSS INSURANCE

Effective October 1, 2001, the Corporation entered into a HMO Excess Risk Policy with OHIC. The specific terms of the contract are discussed in the Transactions with Affiliates section of the examination report.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Bureau required that the Corporation maintain a \$300,000 minimum deposit with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Transactions with Affiliates
Territory and Plan of Operation
Conflict of Interest
Provider Contracts
Contract Forms
Special Reserves and Deposits
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition at December 31, 2007; a statement of revenue and expenses for the year ending December 31, 2007; a reconciliation of capital and surplus for the period under review and a statement of cash flow for the year ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$4,706,713		\$4,706,713
Cash and short-term investments	<u>830,996</u>		<u>830,996</u>
Subtotals, cash and invested assets	\$5,537,709	\$0	\$5,537,709
Investment income due and accrued	41,678		41,678
Uncollected premiums and agents' balances in the course of collection	260		260
Net deferred tax asset	69,000	66,000	3,000
Furniture and equipment, including health care delivery assets	5,735	5,735	0
Receivables from parent, subsidiaries and affiliates	58,892		58,892
Health care and other amounts receivable	11	11	0
Aggregate write-ins for other than invested assets	<u>13,736</u>	<u>13,736</u>	<u>0</u>
Total assets	<u>\$5,727,021</u>	<u>\$85,482</u>	<u>\$5,641,539</u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$5,871	\$0	\$5,871
Unpaid claims adjustment expenses		500	500
Amounts due to parent, subsidiaries and affiliates		4,736	4,736
Total liabilities	<u>\$5,871</u>	<u>\$5,236</u>	<u>\$11,107</u>
Common capital stock			\$10,000
Gross paid in and contributed surplus			25,390,000
Unassigned funds (surplus)			<u>(19,769,568)</u>
Total capital and surplus			<u>\$5,630,432</u>
Total liabilities, capital and surplus			<u><u>\$5,641,539</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	<u>XXX</u>	<u>\$5,934</u>
Total revenues	<u>XXX</u>	<u>\$5,934</u>
Hospital and Medical		
Hospital/medical benefits		\$19,479
Emergency room and out-of-area		(193)
Prescription drugs		(884)
Aggregate write-ins for other hospital and medical		<u>9</u>
Total hospital and medical		\$18,411
General administrative expenses		<u>36,414</u>
Total underwriting deductions		<u>\$54,825</u>
Net underwriting gain or (loss)	<u>XXX</u>	<u>(\$48,891)</u>
Net investment income earned		\$206,080
Net realized capital gains		<u>42,864</u>
Net investment gains		<u>\$248,944</u>
Net income before federal income taxes	XXX	\$200,053
Federal income taxes incurred	<u>XXX</u>	<u>66,463</u>
Net income	<u>XXX</u>	<u>\$133,590</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Capital and surplus prior reporting year	<u>\$13,808,183</u>	<u>\$5,294,432</u>	<u>\$5,458,902</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	\$494,121	\$105,431	\$133,590
Change in net deferred income tax	(68,000)	(18,000)	(3,000)
Change in nonadmitted assets	65,789	70,451	9,904
Dividends to stockholders	(9,000,000)		
Aggregate write-ins for gains or (losses) in surplus	<u>(5,661)</u>	<u>6,588</u>	<u>31,036</u>
Net change in capital and surplus	<u>(\$8,513,751)</u>	<u>\$164,470</u>	<u>\$171,530</u>
Capital and surplus end of reporting year	<u><u>\$5,294,432</u></u>	<u><u>\$5,458,902</u></u>	<u><u>\$5,630,432</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$5,872
Net investment income	248,025
Total	<u>\$253,897</u>
Benefit and loss related payments	\$19,885
Commissions, expenses paid and aggregate write-ins for deductions	36,414
Federal income taxes paid	66,463
Total	<u>\$122,762</u>
Net cash from operations	<u>\$131,135</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$3,594,328
Miscellaneous proceeds	32,286
Total investment proceeds	<u>\$3,626,614</u>
Cost of investments acquired (long-term only):	
Bonds	\$3,621,441
Miscellaneous applications	42,865
Total investment acquired	<u>\$3,664,306</u>
Net cash from investments	<u>(\$37,692)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided (applied)	<u>(\$35,471)</u>
Net cash from financing and miscellaneous sources	<u>(\$35,471)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

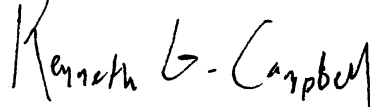
Net change in cash and short-term investments	\$57,972
Cash and short-term investments:	
Beginning of the year	<u>773,024</u>
End of the year	<u>\$830,996</u>

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Darrin Bailey, CFE, Cliff Lewis, CFE, George Morgan, CFE, and LeShan Smith participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial "K" and a stylized "G".

Kenneth G. Campbell, CFE
Assistant Chief Examiner



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www.optimahealth.com

June 17, 2008

David Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Optima Health Group, Inc
Examination Report as of December 31, 2007

Dear Mr. Smith:

I am acknowledging receipt of the examination report as of December 31, 2007 for
Optima Health Group, Inc.

Sincerely,

A handwritten signature in cursive script that reads "Michael M. Dudley".

Michael M. Dudley
President

Cc: Andrew M. Palmer